

**VISIONQUEST NATIONAL, LTD. AND
SUBSIDIARIES AND VISIONQUEST NONPROFIT
CORPORATION**

YEARS ENDED JUNE 30, 2018 AND 2017

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST
NONPROFIT CORPORATION**

YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditors' Report

Board of Directors and Management
VisionQuest National, Ltd. and Subsidiaries and
VisionQuest Nonprofit Corporation
Tucson, Arizona

We have audited the accompanying consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation, which comprise the consolidated and combined balance sheets as of June 30, 2018 and 2017, and the related consolidated and combined statements of operations, shareholders' deficiency and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the City of Philadelphia Subrecipient Audit Guide. Those standards and the City of Philadelphia Subrecipient Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated and combined financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated and combined financial statements, the Company incurred a net loss of \$729,000 during the year ended June 30, 2018, and, as of that date, had a working capital deficiency of \$5,257,000 and deficit net worth of \$8,581,000. Management's evaluation of the events and conditions and management's plans regarding those matters are described in Note 16. The consolidated and combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2019, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Beach Fleischman PC".

Tucson, Arizona
August 27, 2019

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST
NONPROFIT CORPORATION**

CONSOLIDATED AND COMBINED BALANCE SHEETS

JUNE 30, 2018 AND 2017
(in thousands)

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 145	\$ 520
Accounts receivable, net	3,459	3,853
Prepaid expenses and deposits	<u>907</u>	<u>648</u>
Total current assets	4,511	5,021
Property and equipment, net	1,617	3,333
Other assets	<u>336</u>	<u>461</u>
	<u>\$ 6,464</u>	<u>\$ 8,815</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current liabilities:		
Checks to be funded	\$ 101	\$ 170
Note payable, lender	-	2,826
Current portion of long-term debt	4,771	2,449
Current portion of capital lease obligations	158	258
Accounts payable	1,677	3,252
Accrued expenses	2,183	2,943
Other current liabilities	<u>878</u>	<u>251</u>
Total current liabilities	<u>9,768</u>	<u>12,149</u>
Note payable, lender	2,161	-
Long-term debt, net of current portion	<u>3,116</u>	<u>4,518</u>
	<u>5,277</u>	<u>4,518</u>
Commitments and contingencies		
Shareholders' deficiency:		
Common stock	1,465	1,465
Additional paid-in capital	140	140
Accumulated deficit	(5,291)	(4,562)
Deferred compensation obligation	936	936
Treasury stock, at cost	<u>(5,831)</u>	<u>(5,831)</u>
	<u>(8,581)</u>	<u>(7,852)</u>
	<u>\$ 6,464</u>	<u>\$ 8,815</u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND
VISIONQUEST NONPROFIT CORPORATION**

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

**YEARS ENDED JUNE 30, 2018 AND 2017
(in thousands)**

	<u>2018</u>	<u>2017</u>
Revenues:		
Care and service	\$ 24,261	\$ 26,268
Education	1,683	1,136
Other	<u>2,640</u>	<u>1,701</u>
	<u>28,584</u>	<u>29,105</u>
Operating expenses:		
Personnel	19,002	20,704
Building	4,495	4,252
Contracted services	643	743
Equipment	607	597
Livestock	80	53
Vehicle	982	985
Youth	1,172	1,512
General and administrative	1,762	829
(Gain) loss on disposal of assets	<u>169</u>	<u>(290)</u>
	<u>28,912</u>	<u>29,385</u>
Loss from operations	(328)	(280)
Interest expense	<u>(389)</u>	<u>(548)</u>
Loss before income taxes	(717)	(828)
Income tax expense:		
Current	<u>(12)</u>	<u>(12)</u>
Net loss	<u><u>\$ (729)</u></u>	<u><u>\$ (840)</u></u>

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND
VISIONQUEST NONPROFIT CORPORATION**

CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' DEFICIENCY

YEARS ENDED JUNE 30, 2018 AND 2017
(in thousands, except share data)

	Common stock, no par value			Additional paid-in capital	Accumulated deficit	Deferred compensation obligation		Treasury stock		Total
	Shares		Amount			Shares	Amount, at cost	Shares	Amount, at cost	
	Authorized	Issued								
Balance, June 30, 2016	10,000,000	2,189,245	\$ 1,465	\$ 140	\$ (3,722)	104,695	\$ 936	932,072	\$ (5,779)	\$ (6,960)
Purchase of treasury shares	-	-	-	-	-	-	-	10,801	(52)	(52)
Net loss	-	-	-	-	(840)	-	-	-	-	(840)
Balance, June 30, 2017	10,000,000	2,189,245	\$ 1,465	\$ 140	\$ (4,562)	104,695	\$ 936	942,873	\$ (5,831)	\$ (7,852)
Net loss	-	-	-	-	(729)	-	-	-	-	(729)
Balance, June 30, 2018	10,000,000	2,189,245	\$ 1,465	\$ 140	\$ (5,291)	104,695	\$ 936	942,873	\$ (5,831)	\$ (8,581)

See notes to consolidated and combined financial statements.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND
VISIONQUEST NONPROFIT CORPORATION**

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

**YEARS ENDED JUNE 30, 2018 AND 2017
(in thousands)**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net loss	\$ (729)	\$ (840)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense (recovery)	52	(1,220)
Depreciation and amortization	640	688
(Gain) loss on disposal of assets	169	(290)
Changes in operating assets and liabilities:		
Accounts receivable	342	2,823
Inventory	-	29
Prepaid expenses and deposits	(259)	156
Other assets	125	(9)
Accounts payable	(1,051)	(183)
Accrued expenses	(760)	170
Deferred revenue	-	(43)
Other current liabilities	<u>627</u>	<u>(165)</u>
Total adjustments	<u>(115)</u>	<u>1,956</u>
Net cash provided by (used in) operating activities	<u>(844)</u>	<u>1,116</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(252)
Proceeds from disposal of assets	<u>61</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>61</u>	<u>(252)</u>
Cash flows from financing activities:		
Net repayments on note payable, lender	(665)	(404)
Repayments related to checks to be funded	(69)	(76)
Borrowings on long-term debt	1,478	800
Principal payments on long-term debt	(236)	(350)
Repayments of capital lease obligations	(100)	(270)
Purchase of treasury stock	<u>-</u>	<u>(52)</u>
Net cash provided by (used in) financing activities	<u>408</u>	<u>(352)</u>
Net increase (decrease) in cash and cash equivalents	(375)	512
Cash and cash equivalents, beginning	<u>520</u>	<u>8</u>
Cash and cash equivalents, ending	<u>\$ 145</u>	<u>\$ 520</u>

See notes to consolidated and combined financial statements.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

1. Description of business and summary of significant accounting policies:

Description of business:

VisionQuest National, Ltd. (VisionQuest) and its wholly owned subsidiaries and VisionQuest Nonprofit Corporation (dba Lodgemakers) provide counseling, treatment, education and behavioral health services on a national basis to delinquent, dependent and at risk juveniles. Placements in treatment programs are made primarily through juvenile authorities or agencies of various governments. Arizona Hatters, Inc. (Hatters) is a retail distributor of western wear. Hatters operations were sold in November 2016 and the corporation became inactive. Lodgemakers is a separate nonprofit organization controlled by VisionQuest.

Principles of consolidation and combination:

The consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation are comprised of VisionQuest and its wholly owned subsidiaries, VisionQuest Management Services Corporation, Lodgequest, VisionQuest of New Jersey, Inc., and Hatters, and its affiliate, Lodgemakers (collectively, "the Company"). All significant intercompany transactions and accounts have been eliminated in consolidation and combination.

Estimates:

The preparation of consolidated and combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

During 2018, the Company performed an analysis on certain balance sheet accounts and noted changes in estimates related to payroll tax expense, lease deposits, rent expense, legal settlements and financial services fees. This resulted in a reduction in costs of approximately \$535,000 in 2018 related to revisions of the estimates of such costs.

Revenue recognition:

The Company recognizes revenue for care and services and education under contractual arrangements with local school districts and state, county and municipal government agencies for the provision of services to youths enrolled in the Company's programs. Revenue is recognized when services are rendered to enrolled youths. Other revenue is recognized when products are delivered and services are rendered.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

1. Description of business and summary of significant accounting policies (continued):

Cash and cash equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company places its cash and cash equivalents with credit institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable:

Accounts receivable consists primarily of amounts billed and currently due from governmental agencies and include unbilled costs and accrued profits primarily related to revenues on contracts that have been recognized for accounting purposes, but not yet billed to the agencies. The Company grants unsecured credit to these agencies, generally without collateral or interest. The Company considers all accounts over 30 days to be past due and provides an allowance for doubtful accounts based on prior experience and management's assessment of the collectibility of existing specific accounts. Doubtful accounts are periodically reviewed for collectibility and charged off to the allowance when management determines that all reasonable collection efforts have been exhausted.

Property, equipment, depreciation and amortization:

Property and equipment are stated at cost. Expenditures for major improvements or items that benefit future periods are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets.

Property and equipment under capital lease are stated at cost or the assets' net present value of future lease payments at the date of the lease. Amortization is provided using the straight-line method over the estimated lives of the assets, or lease term, and is included with depreciation expense.

Stock option plan:

The Company recognizes compensation cost for stock-based awards using the fair value of the award at the date of grant. The Company recognizes stock-based compensation for newly awarded stock options and modifications on a straight-line basis over the vesting period.

Advertising:

The Company follows a policy of charging costs of advertising to expense as incurred. Total advertising expense was approximately \$16,000 and \$18,000 for 2018 and 2017.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

1. Description of business and summary of significant accounting policies (continued):

Workers' compensation insurance:

The Company has purchased workers' compensation insurance from an independent third party under a retrospectively rated policy. Under the policy, premiums may be adjusted subsequent to the policy year-end depending upon actual claims experience. Management estimates its workers' compensation expense based on the premiums charged and does not believe actual expense would be materially different. Due to the nature of the expense, it is at least reasonably possible that the estimates used will change within the near term.

Income taxes:

Deferred income taxes are provided for temporary differences arising primarily from using the straight-line depreciation method for financial statements and accelerated methods of depreciation for income taxes. In addition, deferred income taxes are provided for temporary book and tax differences arising from the treatment of bad debt allowance, prepaid expenses, accrued expenses and involuntary conversion. Deferred income taxes are also recognized for net operating loss carryforwards that are available to offset future taxable income.

The tax provision differs from the expense that would result from applying statutory rates to income before income taxes because there are permanent differences between financial and tax reporting including nondeductible officers' life insurance premiums, meals, entertainment and penalties. In addition, differences also relate to management's election to provide an allowance for deferred income tax assets since its realization is not assured.

Lodgemakers was formed as a legal nonprofit organization; however, it has not elected tax exempt status and, therefore, it is treated as a corporation for tax purposes.

From time to time, the Company may be subject to interest and penalties assessed by various taxing authorities, which have historically been insignificant. Penalties are classified as general and administrative expenses and interest as other expense, if they occur.

Subsequent events:

The Company's management has evaluated the events that have occurred subsequent to June 30, 2018 through August 27, 2019, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

2. Accounts receivable:

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Under 120 days	\$ 3,219	\$ 3,617
Over 120 days	641	736
Unbilled receivables	<u>-</u>	<u>50</u>
	3,860	4,403
Less allowance for doubtful accounts	<u>401</u>	<u>550</u>
	<u><u>\$ 3,459</u></u>	<u><u>\$ 3,853</u></u>

3. Property and equipment:

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Land	\$ 134	\$ 192
Buildings and improvements	10,247	14,334
Equipment	4,915	5,116
Vehicles	787	1,016
Capital projects in progress	<u>-</u>	<u>12</u>
	16,083	20,670
Less accumulated depreciation and amortization	<u>14,466</u>	<u>17,337</u>
	<u><u>\$ 1,617</u></u>	<u><u>\$ 3,333</u></u>

4. Accrued expenses:

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Interest	\$ 794	794
Payroll	642	768
Payroll taxes and benefits	99	341
Property taxes	193	200
Other	<u>455</u>	<u>840</u>
	<u><u>\$ 2,183</u></u>	<u><u>\$ 2,943</u></u>

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

5. Note payable, lender:

The Company has a \$7,500,000 revolving line of credit agreement with Gemino Healthcare Financing, Inc. that matured in January 2019. The line is subject to a borrowing base that is specified in the line of credit agreement. Interest is payable monthly at the 30-day LIBOR plus 6%. At June 30, 2018 and 2017, the 30-day LIBOR was 2.09% and 1.22%. The line is collateralized by substantially all assets of the Company and personally guaranteed by two shareholders. The total balance outstanding on the line of credit at June 30, 2018 and 2017 was \$2,161,037 and \$2,826,001. The line of credit requires the Company to be in compliance with certain financial and nonfinancial covenants, including a minimum fixed charge coverage ratio, prohibiting the Company from incurring additional debt, consummating a sale or merger of the Company or from acquiring other entities without prior consent and approval. The loan covenants are tested quarterly. At June 30, 2018, the Company was not in compliance with the financial statement submission and minimum fixed charged coverage ratio covenants. In July 2019, the revolving line of credit agreement was amended and restated to a maximum of \$3,000,000 and matures in March 2022. Interest is payable monthly at the 30-day LIBOR plus 5.5%. The line is subject to a 1% annual collateral monitoring fee, early termination fees, and default fees.

6. Long-term debt:

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Note payable, shareholder, noninterest bearing, due February 2019, unsecured. In July 2019, this debt was forgiven.	\$ 1,900	\$ 1,900
Note payable, shareholder, noninterest bearing, due in January 2016, unsecured. In July 2019, this debt was forgiven.	1,448	1,448
Note payable, shareholder, noninterest bearing until July 2019 where interest is payable at 8%, due January 2016, unsecured. Demand has been made in August 2019 and the Company is currently negotiating resolution.	130	130
Note payable, individual for stock repurchase, due on demand, unsecured.	5	5
Note payable, shareholder, noninterest bearing, due on demand, unsecured. In July 2019, \$50,000 of this debt was forgiven.	400	50
Note payable, BWL Investments, LLC, related party, noninterest bearing, due July 2022, unsecured.	1,000	600

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

6. Long-term debt (continued):

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Note payable, Parke Bank, payable in monthly installments of \$21,330 including interest at prime (5.0% and 4.25% at June 30, 2018 and 2017) plus 2.75% through February 2030, collateralized by certain assets of the company and personally guaranteed by a shareholder.	\$ 1,324	\$ 2,283
Note payable, Commerce Bank, payable in monthly installments of \$3,126 including interest at 5.5%, final payment due April 2019, collateralized by real and personal property. In August 2018, the collateral was sold to a shareholder and the shareholder assumed the this note payable.	304	325
Note payable, GE Capital, payable in monthly installments of \$3,024, including interest at 7.24% through August 2017, collateralized by modular office.	-	9
Note payable, Linton Food Services Equipment, payable in monthly noninterest-bearing installments of \$1,091 through January 2018, collateralized by equipment.	-	13
Note payable, CNH Industrial Capital America, payable in monthly noninterest-bearing installments of \$446 through August 2020, collateralized by equipment.	12	16
Note payable, GE Capital, payable in monthly installments of \$541, including interest at 2.76% through August 2017, collateralized by equipment.	-	1
Notes payable, Ally Bank, payable in aggregate monthly installments totaling \$2,009 including interest rates varying from 6.59% to 7.74% through March 2022, collateralized by vehicles.	79	97
Notes payable, Bank of the West, payable in aggregate monthly installments totaling \$3,507 including interest rates varying from 4.81% to 5.16% through August 2020, collateralized by vehicles.	76	85
Note payable, Sheffield Financial, payable in monthly installments of \$109 including interest at 0.46% through July 2021, collateralized by equipment.	4	5

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

6. Long-term debt (continued):

	(in thousands)	
	<u>2018</u>	<u>2017</u>
Note payable, OYR Realty Partners, noninterest bearing, payable in monthly installments of \$50,000 through August 2018, \$30,000 through March 2022.	\$ 1,145	\$ -
Loan payable, ACH Child and Family Services, noninterest bearing, payable in monthly installments of \$10,000 through December 2018.	<u>60</u>	<u>-</u>
	7,887	6,967
Less current portion	<u>4,771</u>	<u>2,449</u>
	<u>\$ 3,116</u>	<u>\$ 4,518</u>

Future maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	<u>(in thousands)</u>
2019	\$ 4,771
2020	429
2021	461
2022	1,426
2023	154
Thereafter	<u>646</u>
	<u>\$ 7,887</u>

7. Capital lease obligations:

The Company leases modular buildings and equipment under various direct-financing agreements that expire through June 30, 2019. The Company has recorded asset costs of \$1,121,351 and accumulated amortization of \$599,419 and \$487,284 at June 30, 2018 and 2017 related to these leases. In September 2018, the capital leases were paid off.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

8. Commitments and contingencies:

Operating leases:

The Company leases office space and residential treatment facilities from current board members, shareholders and employees, some of whom are also officers of the Company, under operating leases with various terms expiring through June 2024. Total rent expense relating to these leases was approximately \$361,800 and \$351,000 for 2018 and 2017. In 2018, certain of these related parties forgave past due rent totaling approximately \$484,000, which has been recognized as other revenue.

The Company also leases office, computer hardware and vehicles under operating leases with terms expiring through November 2035. Aggregate rental expense for all operating leases amounted to approximately \$2,483,000 and \$2,598,000 for 2018 and 2017.

The aggregate future minimum rentals on operating leases are as follows:

Year ending June 30,	Future minimum payments			Straight-line lease expense (in thousands)
	Related party (in thousands)	Other (in thousands)	Total (in thousands)	
2019	\$ 270	\$ 1,088	\$ 1,358	\$ 1,236
2020	270	1,172	1,442	1,298
2021	270	1,162	1,432	1,343
2022	270	1,061	1,331	1,332
2023	270	1,013	1,283	1,283
Thereafter	170	2,143	2,313	2,312
	<u>\$ 1,520</u>	<u>\$ 7,639</u>	<u>\$ 9,159</u>	<u>\$ 8,804</u>

Deferred rent of approximately \$355,000 and \$436,000 at June 30, 2018 and 2017 represents the difference between straight-line rent and minimum rental payments from the initial lease term and is included with accrued expenses.

Contingencies:

The Company is involved in various legal proceedings arising in the ordinary course of business. Management believes that these proceedings will not have an adverse, material affect on the Company's financial statements.

The Company participates in publicly funded contract programs that are subject to financial and compliance audits. The amount, if any, of expenditures or fees for units of service that may be disallowed by the contracting agencies pursuant to an audit cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

9. Stock options:

The Company has granted nonqualified options to certain employees that may be exercised at any time during the holder's lifetime and up to one year after his/her death by heirs. At June 30, 2018 and 2017, 10,000 options are outstanding for the Plan and all options are fully vested and exercisable. For 2018 and 2017, there were no options granted, forfeited, expired or exercised. The option price is \$.49 per option at June 30, 2018 and 2017. The weighted-average remaining contractual term for the 10,000 options is 17.048 and 18.348 years at June 30, 2018 and 2017.

10. Deferred compensation:

Commencing October 2001, the Company re-issued a total of 125,028 shares of common stock to key members of management from treasury stock in exchange for past services. These agreements were valued at approximately \$1,075,000, based on a value per share ranging from \$5.78 to \$9.77, the current appraised values at the time of the agreements. All participants elected to contribute their shares of stock to the Company's Rabbi Trust Deferred Compensation Plan, which is held as treasury stock. The shares typically vest on an annual basis over a four-year period. Deferred compensation expense is recorded on a straight-line basis over the vesting period of the agreements. As of June 30, 2018 and 2017, all shares still outstanding are 100% vested. Consequently, no expense was recorded during 2018 and 2017 related to these agreements. As of June 30, 2018 and 2017, the Rabbi Trust held 104,695 shares of the Company's common stock.

11. Related party transactions:

Stock purchase agreement:

In May 2009, the Company entered into a stock purchase agreement with one of its shareholders. Beginning in 2010 and for a period of nine additional years, the Company grants the shareholder a put right, which allows the shareholder to require the Company to purchase from the shareholder each fiscal year up to \$350,000 worth of the shareholder's common stock in the Company. The put right can be exercised by the shareholder delivering a written demand to purchase the shares. The purchase price shall be determined each year by the annual independent valuation on the Company and shall be paid in 24 equal payments over the course of the applicable fiscal year. The shareholder did not exercise the put option in 2018 or 2017.

Employee leasing:

An officer of the company leased two Company employees to operate Hatters. Total amounts paid for 2018 and 2017 were approximately \$0 and \$40,000.

In 2018, a shareholder leased employees to operate a personal business totaling approximately \$80,000 for which approximately \$55,000 is due at June 30, 2018 and included in accounts receivable.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

11. Related party transactions (continued):

Accrued interest, shareholder:

The Company has various notes payable to shareholders. At June 30, 2018 and 2017, there was approximately \$794,000 in accrued interest included in accrued expenses. There was no interest paid in 2018 and 2017 related to these notes.

12. Retirement plan:

Plan provisions:

The Company has a 401(k) salary deferral plan (the 401k Plan). The Company's match on the 401k Plan is discretionary, determined quarterly and based on the Company's income for the quarter. In addition, the Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company. At the direction of the Board of Directors, the Company may contribute additional newly issued shares or cash to the ESOP. No contributions were made to the ESOP or 401k Plan for 2018 and 2017.

Allocations:

The value of the ESOP's investment in the Company's stock is determined by annual appraisals. The annual contribution to the ESOP, if any, plus or minus the change in value of its stock, is the amount that is allocated annually to the Plan's participants. Investment and other income are also allocated annually. Forfeitures are used to pay for plan expenses.

The ESOP shares of 379,278 are fully allocated as of June 30, 2018 and 2017.

In the event a terminated ESOP participant desires to sell his or her shares of the Company's stock, the Company is required to purchase the stock from the participant according to the Plan document. The fair value of the allocated ESOP shares is \$0 as of June 30, 2018 and 2017. The valuation of shares is based on the June 30, 2015 fair value per share.

13. Income taxes:

	<u>(in thousands)</u>	<u>(in thousands)</u>
	<u>2018</u>	<u>2017</u>
Deferred tax assets	\$ 5,842	\$ 7,749
Deferred tax liabilities	<u>(261)</u>	<u>(263)</u>
	5,581	7,486
Less valuation allowance	<u>(5,581)</u>	<u>(7,486)</u>
	<u>\$ -</u>	<u>\$ -</u>

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

13. Income taxes (continued):

The Company has approximately \$10,800,000 and \$23,727,000 of net operating loss carryforwards for federal and state income tax purposes available to offset future taxable income. The loss carryforwards begin to expire in 2027 for federal purposes and 2018 for state purposes.

In 2018 the valuation allowance decreased by \$1,905,000 and in 2017 it increased by \$165,000.

14. Statement of cash flows:

Supplemental disclosure of cash flow information:

Cash paid for interest during 2018 and 2017 was approximately \$389,000 and \$500,000.

Noncash investing and financing information:

During 2018, the Company sold real estate property for \$900,000 of which \$846,000 was used to payoff existing debt on the property.

During 2017, the Company acquired vehicles with long-term financing of approximately \$197,000.

15. Concentrations of credit risk:

The Company's primary source of revenues are from governmental agencies. At June 30, 2018, one agency accounted for 20% of trade accounts receivable and two agencies accounted for 28% of revenues for 2018. For 2017, two agencies accounted for 40% of revenue.

16. Management's plans:

As shown in the accompanying consolidated and combined financial statements as of June 30, 2018, the Company's current liabilities exceed its current assets by approximately \$5,257,000 and total liabilities exceeded its total assets by approximately \$8,581,000. Conversely, the Company had a net loss of approximately \$729,000 and cash flows used in operations of approximately \$844,000 for 2018. Management of the Company has evaluated these conditions and has instituted the following operational changes.

VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES AND VISIONQUEST NONPROFIT CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2018 AND 2017

16. Management's plans (continued):

The biggest change which the Company expects to have the biggest impact is in Senior Management. In November 2018, the Company hired a new Chief Financial Officer and in June 2019 they elected a new Chief Executive Officer and replaced their national Compliance Director. With a change in these three key positions, management expects, and have already seen improvements in service delivery, financial performance and organizational direction. The other changes the Company has implemented from last year include: (1) optimizing cash collections (2) renegotiated the rates paid under several of their contracts resulting in increased revenues for the services they provide in those programs (3) they have closed several underperforming programs in the states of Florida and Texas and (4) they significantly expanded their lines of business most notably under Federal contracts providing services to unaccompanied/undocumented alien children. Finally, they finalized a forgiveness of debt for approximately \$3,400,000 which will greatly improve the balance sheet and Company's liquidity.

**VISIONQUEST NATIONAL, LTD. AND
SUBSIDIARIES AND VISIONQUEST
NONPROFIT CORPORATION**

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2018

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2018

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors and Management
VisionQuest National, Ltd. and Subsidiaries and
VisionQuest Nonprofit Corporation
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation (the Company), which comprise the consolidated and combined balance sheet as of June 30, 2018, and the related consolidated and combined statements of operations, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements, and have issued our report thereon dated August 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated and combined financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's consolidated and combined financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-005 that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated and combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-006.

The Company's Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beach Fleishman PC

Tucson, Arizona
August 27, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors and Management
VisionQuest National, Ltd. and Subsidiaries and
VisionQuest Nonprofit Corporation
Tucson, Arizona

Report on Compliance for Each Major Federal Program

We have audited VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation's (the Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2018. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated and combined financial statements of the Company as of and for the year ended June 30, 2018, and have issued our report thereon dated August 27, 2019, which contained an unmodified opinion on those consolidated and combined financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated and combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated and combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated and combined financial statements or to the consolidated and combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is

fairly stated in all material respects in relation to the consolidated and combined financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Beach Fleischman PC

Tucson, Arizona
August 27, 2019

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>				
Title I Grants to Local Education Agencies	84.010			
Passed through:				
State of Pennsylvania:				
Capital Area Intermediate Unit		107-150615	-	\$ 159,930
Total U.S. Department of Education			-	159,930
<u>U.S. Department of Health and Human Services</u>				
Temporary Assistance for Needy Families	93.558			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		14-074702	-	410,068
State of Pennsylvania:				
Monroe County Juvenile Probation		Unknown	-	29,746
Philadelphia Department of Human Services		17-20233/ 17-20212	-	530,404
State of Texas:				
Texas Department of Family and Protective Services		Unknown	-	97,435
Total Temporary Assistance for Needy Families			-	1,067,653
 Child Welfare Research Training or Demonstration	 93.648			
Passed through:				
State of Pennsylvania:				
Philadelphia Department of Human Services		17-20233/ 18-20472	-	495,049
 Foster Care - Title IV-E	 93.658			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		Multiple	-	1,402,025
State of Florida:				
CBC of Central Florida		Unknown	-	5,174
Child Net, Inc.		JJ212	-	1,787,342
Community Partnership for Children		Unknown	-	6,995
State of Pennsylvania:				
Berks County		Unknown	-	85,672
Delaware County Juvenile Probation		Unknown	-	55,962
Lehigh County CYS		Unknown	-	31,368
Luzerne County CYS		Unknown	-	221,678
Philadelphia Department of Human Services		17-20233	-	12,196
Schuylkill County CYS		Unknown	-	52,723
State of Texas:				
Texas Department of Family and Protective Services		Unknown	-	80,105
Total Foster Care - Title IV-E			-	3,741,240

See accompanying notes to schedule of expenditures of federal awards.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to subrecipients</u>	<u>Federal Expenditures</u>
Adoption Assistance - Title IV-E	93.659			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		15-094727	-	10,223
Social Services Block Grant	93.667			
Passed through:				
State of Arizona:				
Arizona Department of Child Safety		14-074702	-	747,909
State of Florida:				
CBC of Central Florida		Unknown	-	3,633
Child Net, Inc		JJ212	-	542,716
Community Partnership for Children		Unknown	-	2,281
State of Delaware:				
DYRS Community Services		Unknown	-	412,048
Total Social Services Block Grant			-	1,708,587
Unaccompanied Alien Children Program	93.676			
Direct		90ZU0176-02-01	-	1,453,667
Total U.S. Department of Health and Human Services			-	8,476,419
Total expenditures of federal awards			\$ -	\$ 8,636,349

See accompanying notes to schedule of expenditures of federal awards.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

1. Basis of presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation (the Company) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation, it is not intended to and does not present the consolidated and combined financial position, changes in shareholders' equity or cash flows of the Company.

2. Summary of significant accounting policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers:

The program titles and CFDA numbers or federal identification numbers were obtained from the federal or pass-through grantor or the update to the 2018 *Catalog of Federal Domestic Assistance*.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITORS' RESULTS

Financial Statements

The auditors' report expressed an unmodified opinion on the consolidated and combined financial statements of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation.

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> No

The auditors' report on compliance for the major federal awards program of VisionQuest National, Ltd. and Subsidiaries and VisionQuest Nonprofit Corporation expressed an unmodified opinion on its major program.

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

 Yes X No

Identification of major federal programs:

CFDA 93.658 Foster Care - Title IV-E

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes X No

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses:

2018-001

Condition and Criteria:

We experienced significant delays in getting the annual financial statement and compliance audits completed.

Effect:

Without the proper accounting staff in place, complete account reconciliations and financial information cannot be provided timely.

Cause:

Limited accounting staff size and lack of a full-time Chief Financial Officer (CFO) during a significant part of the year.

Recommendation:

We recommend the Company evaluate its current staffing and determine whether additional employees in the accounting department are deemed necessary including a full-time CFO.

This is a repeat finding. See finding 2017-001

Auditee Response:

A new Chief Financial Officer was hired November 2018 and a new controller was hired the end of April 2019 to fulfill the recommended need from the prior audit. Going forward the Company is searching for a full-time permanent Senior Accountant.

2018-002

Condition and Criteria:

We noted that management could not locate or did not have access to certain youth files and agreements and documents including debt agreements.

Effect:

Without access to the proper agreements and documents, the accounting department may not be aware of critical information necessary to prepare accurate financial statements and comply with agreements and government grants.

Cause:

Limited accounting staff size and lack of procedures in place and closure of a facility.

Recommendation:

We recommend the Company implement policies and procedures to improve retention, maintenance and sharing of critical agreements and documents.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (continued):

This is a repeat finding. See finding 2017-002

Auditee Response:

A controller has been hired as of April 2019. The controller will oversee an inventory of all executed contracts and agreements and discuss with the finance team. This will include developing and implementing a policy and procedure for all management concerning the filing & maintenance of contracts and agreements. A quarterly review will occur as part of a planned Internal control initiative within the finance department. Additionally, a procedure will be put in place regarding the closure of a facility.

2018-003

Condition and Criteria:

We noted there is a lack of documentary evidence pertaining to the review of the Company's monthly bank reconciliations by an appropriate member of management.

Effect:

Without proper review of monthly bank reconciliations, errors may occur and not be detected and corrected.

Cause:

Limited accounting staff size and lack of procedures in place.

Recommendation:

We recommend the Company implement policies and procedures to ensure bank reconciliations are reviewed by the appropriate member of management.

This is a repeat finding. See finding 2017-003

Auditee Response:

The Company has assigned the controller the duty of reviewing the bank reconciliations on a monthly basis as part of the month end close procedure. Currently, the company has hired a temporary staff accountant to complete the bank reconciliations and plan to hire a senior accountant to carry out reconciliation month end procedures properly for excellent internal control.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

2018-004

Condition and Criteria:

We noted there is a lack of documentary evidence pertaining to the supervisory review and authorization of significant manual journal entries for posting to the Company's general ledger.

Effect:

Without proper review of manual journal entries, errors may occur and not be detected and corrected.

Cause:

Limited accounting staff size and lack of procedures in place.

Recommendation:

We recommend the Company implement policies and procedures to ensure that manual journal entries are reviewed and approved timely.

This is a repeat finding. See finding 2017-004

Auditee response:

The Company currently has a policy that all manual journal entries be approved by either the assistant Controller or the CFO. All cash account adjustments must be approved and signed by the CFO. The standard & adjusting journal entry worksheets currently include the following 3 signatures: employee who prepares the journal entry, employee who reviews and approves the journal entry, and the employee who enters the journal entry all with dates the activity occurred . This is also documented on a lead sheet with corresponding information.

2018-005

Condition and Criteria:

We noted that certain employee time sheets did not contain a supervisor's approval. We selected 5 time sheets and the Company was not able to demonstrate supervisory approval. Additionally, we selected 2 employee pay checks and the Company was unable to locate employee pay rate verification for these.

Effect:

Without proper approval and proper support to pay rates, employees could be incorrectly paid.

Cause:

Supervisory staff are not following policies in place.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Material Weaknesses (continued):

Recommendation:

We recommend the Company follow current policies and procedures in documenting supervisory approval on time sheets and in maintaining employee pay rate forms.

This is a repeat finding. See finding 2017-005

Auditee Response:

The Company is in the process of implementing a policy and procedure to manage the time sheet approval process for excellent internal control. We will also provide training to all management staff regarding the time sheet approval process. This will be implemented by the controller and payroll manager after approval by the CFO.

Other findings:

2018-006

Condition and Criteria:

We noted that the fixed asset subsidiary ledger was not maintained and reconciled to the general ledger.

Effect:

Without proper support to the fixed asset reporting, errors may occur and not be detected and corrected.

Cause:

Limited accounting staff size.

Recommendation:

We recommend the Company implement policies and procedures to ensure that the fixed asset subsidiary ledger is maintained and reviewed timely.

Auditee Response:

We have currently reviewed and reconciled the general ledger to the fixed asset subsidiary ledger and have identified all variances for the audit review and have carried the reconciliation through the year ended June 30, 2019 and forward. Additionally a policy and procedure is under discussion and will be formalized and published within the first quarter of 2020.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Questioned
Costs

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

2018-007 Foster Care - Title IV-E - CFDA 93.658
- Year ended June 30, 2018

Condition and criteria:

Reporting requirements stipulated by the Uniform Guidance should be adhered to. The Single Audit shall be completed and the data collection form shall be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Additionally, two agencies require annual audit reports to be submitted 120 and 180 days after year end.

Effect:

The annual audit, Single Audit and the data collection form were not completed by the due required deadline.

Population and items tested:

Not applicable

None

Cause:

Due to the delay in the preparation of the SEFA and the compiling of records and supporting documentation related to the financial statement and compliance audit, the Company was not in compliance with the reporting requirement.

Recommendation:

We recommend the the Company complete its annual audit and Single Audit and submit the related data collection form to the federal clearinghouse by the required deadline.

This is a repeat finding. See finding 2017-008

Auditee response:

We agree and will schedule audit work on a timely basis and provide additional emphasis to the accounting staff to complete the audit according to the schedule.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS

- Finding 2017-001 *Condition:*
Accounting Oversight Function - Auditor experienced significant delays in getting the annual financial statement and compliance audits completed.
- Recommendation:*
The auditor recommended the Company hire a CFO and consider hiring additional employees in the accounting department.
- Current status:*
The current status at finding 2018-001 also applied to this finding.
-
- Finding 2017-002 *Condition:*
Improve Record Retention and Maintenance of Critical Agreements and Accounting Data - Auditor instances where management could not locate final versions of certain agreements and documents.
- Recommendation:*
The auditor recommended that the Company implement policies and procedures to improve retention and maintenance of critical agreements and accounting data.
- Current status:*
The current status at finding 2018-002 also applied to this finding.
-
- Finding 2017-003 *Condition:*
Evidence Review of Bank Reconciliations - Auditor noted lack of documentary evidence pertaining to the review of the Company's monthly bank reconciliations.
- Recommendation:*
The auditor recommended that all bank reconciliations be properly reviewed by an appropriate member of management in a timely manner.
- Current status:*
The current status at finding 2018-003 also applies to this finding.

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

Finding 2017-004	<p><i>Condition:</i> <i>Enhance Controls over Manual Journal Entries</i> - Auditor noted instances where there was a lack of evidence pertaining to the supervisory review of significant manual journal entries.</p> <p><i>Recommendation:</i> The auditor recommended that manual journal entries be properly reviewed and approved.</p> <p><i>Current status:</i> The current status at finding 2018-004 also applies to this finding.</p>
Finding 2017-005	<p><i>Condition:</i> Certain employee time sheets did not contain supervisor's approval.</p> <p><i>Recommendation:</i> The auditor recommended that the Company follow current policies and procedures in documenting supervisory approval on time sheets.</p> <p><i>Current status:</i> The current status at finding 2018-005 also applies to this finding.</p>
Finding 2017-006	<p><i>Condition:</i> Certain disbursements were not coded to the proper expense account.</p> <p><i>Recommendation:</i> The auditor recommended that the Company pay closer attention when reviewing monthly financials by cost center to identify any unusual fluctuations that may result from miscodings.</p> <p><i>Current status:</i> No similar instances were noted in the current year.</p>

**VISIONQUEST NATIONAL, LTD. AND SUBSIDIARIES
AND VISIONQUEST NONPROFIT CORPORATION**

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

Finding 2017-007

Condition:

Certain disbursements did not have payment requisition forms along with supervisor's approval.

Recommendation:

The auditor recommended that the Company follow current policies and procedures in obtaining requisition forms and documenting supervisory approval on disbursements.

Current status:

No similar instances were noted in the current year.

MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS

Finding 2017-008

Foster Care - Title IV-E - CFDA 93.658 Unaccompanied Alien Children Program - CFDA No. 93.676.

Condition:

The Company did not submit its single audit by the required deadline.

Recommendation:

The auditor recommended the Company complete its annual Single Audit and submit the related data collection form to the federal clearinghouse by the required deadline.

Current status:

The current status at finding 2018-007 also applies to this finding.



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In accordance with the requirements of *Government Auditing Standards* and the Uniform Guidance, we provide our response to the finding referenced in the Single Audit reporting package for the year ended June 30, 2018 as follows:

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-001

We concur with the recommendation.

A CFO was hired November 2018 and Controller was hired in April 2019. An evaluation of the accounting staff is still in progress and is currently searching for a full-time permanent Senior Accountant.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-002

We concur with the recommendation.

The company has assigned the task of maintaining the contract files to the Contracts Manager and all debt related agreements to the Controller. In addition, we continuously review and update the policy and procedures to all management employees concerning the filing of contracts and agreements. Additionally a procedure will be implemented regarding the closure of a facility.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-003

We concur with the recommendation.

The company has assigned the Controller the duty of verifying the accuracy and completeness of the bank reconciliations on a monthly basis and report to the CFO as part of the month end close process. Currently the company has hired a temporary Staff Accountant to complete the bank reconciliations and plan to hire a Senior Accountant to carry out reconciliation month end documented procedures.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-004

We concur with the recommendation.

The company currently has a policy that all manual journal entries be approved by the Controller or the CFO. On a monthly basis as part of the close procedure the CFO will review all manual journal entries for compliance to the policy. This is further documented on a summary lead sheet with corresponding information.



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FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-005

We concur with the recommendation.

The Company is in the process of providing policies and procedures to manage the time sheet approval process. State Controllers will be training all management staff as to the procedure for handling time sheet approval.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-006

We concur with the recommendation.

The Company has currently reviewed and reconciled the general ledger to the fixed asset subsidiary ledger and has identified all variances for the audit review. This procedure has been carried forward throughout each month end process. A policy and procedure is under review to be formalized and published.

FINDINGS – FINANCIAL STATEMENT AUDIT: FINDING 2018-007

We concur with the recommendation.

The Company will schedule the audit work on a timely basis and provide additional emphasis to the accounting staff to complete the audit according to the schedule.